

## Long-Term Care Task Force Briefing Paper

### **Issue:** State-Financed Reverse Annuity Mortgage Loans

**Description:** A reverse annuity mortgage (RAM) is a loan aimed at senior citizens who have paid off their houses but cannot afford to stay there or need extra money for home repair, long-term care, medical treatment, or other purposes. It allows a homeowner to convert into cash some of the equity he has built up in his home. The loan proceeds are tax-free, and there are no minimum income requirements for most private RAMs. The loans are usually paid out to the borrower monthly, instead of in one lump sum, and repaid when the borrower sells the home, moves out, or dies. Two states, Montana and Connecticut, have developed RAMs offering loans to low income seniors.

**Montana's Experience:** Montana's Reverse Annuity Mortgage Loan was implemented in October 1990 to enable certain low-income elderly Montanans to more substantially provide for their own in-home support by borrowing the equity in their homes and benefit from the additional income. The loan targets persons with low incomes and caps loans at \$150,000; Montanans with higher incomes can use a private HECM. Montana grants about 15-20 loans per year and since 1990, they have granted a total of 129 loans, 55 of which have been paid off. Since 1990, the State has paid out approximately \$6 million for reverse annuity mortgage loans.

In cooperation with the Office on Aging, the Montana Board of Housing has set aside funds to make reverse annuity mortgage loans. The Montana Board of Housing in the Department of Commerce was authorized by legislation in the 1989 session to establish a state-sponsored Reverse Annuity Mortgage Loan Program (RAM). A reverse annuity mortgage is a loan that allows lower-income elderly Montana citizens to convert the equity in their homes into an additional monthly income source. The homeowner may receive a loan in an amount up to 80% of the Federal Housing Administration's estimated value of the home. The loan amounts may range from a minimum of \$30,000 to a maximum of \$150,000.

- **Borrower Eligibility:** To be eligible, a homeowner must be 68 years or older, have an annual family income not exceeding the Montana Board of Housing revenue annuity mortgage loan income limits, own a home that is eligible and have completed the reverse annuity mortgage loan program counseling program. Some exceptions may be considered. The homeowner may continue to have full-time or part-time employment as long as he or she does not exceed the income limit at the time of the loan closing. If the homeowner is married, the spouse must also be 68 years old or older, must be a co-applicant on the loan application and be a joint owner of the property with a right of survivorship.
- **Property Eligibility:** In order for the property to be eligible for the loan it must be located in Montana. The borrower (s) must be the owner and occupant of a single family dwelling that is unencumbered by any prior mortgage, lien or pledge. A single-family dwelling means a one-to-four family living unit. A single-family dwelling must meet minimum FHA property standards as determined by an FHA appraisal. Mobile homes are excluded, although some exceptions may apply.

- **Annual Income Limits in 2006:** Montana limits eligibility for the RAM Program to 200 percent of the federal poverty level.
  - One Person Household           \$19,600
  - Two Person Household       \$26,400
  - Three Person Household      \$33,200
- **Payment Terms:** The net loan proceeds are advanced monthly to the borrower(s) based on a 10-year term. Borrowers can choose to receive the proceeds from the loan as (1) lump sum, (2) fixed monthly payments, (3) a line of credit, or (4) a combination of these. There are no prepayment penalties. The loan payments received by the homeowner are non-taxable income.

Lump sum advances are available at loan closing. Ten thousand dollars is available for items like payment of prior mortgages, liens and pledges, or for needed repairs to the home. Some exceptions may be considered. An advance is available for certain loan closing costs. Lump sum advances reduce the amount of the monthly loan advance.
- **Mandatory Counseling:** Potential borrowers must complete a reverse annuity mortgage counseling program in order to submit an application. The counseling network is provided through the Montana Aging Services Network and seniors are educated about an array of supports in the State, including the RAM.

**Connecticut's Experience:** The CHFA Reverse Annuity Mortgage program makes loans to lower-and moderate-income senior homeowners who have long-term care needs. Eligible costs include those associated with hospitals, nursing homes, residential care homes, in-home care, adult day care, durable medical equipment, medically needed home alterations, long-term care insurance premiums, and uninsured recurring or catastrophic medical and prescription drug expenses. CHFA currently has 860 active loans totaling \$9.3 million.

To be eligible, borrowers must be at least 70 years old, have annual household income of \$81,000 or less, and have long-term care needs. If the borrowers are a married couple, at least one spouse must have long-term care needs. Three types of properties are eligible for a RAM from CHFA: (1) single-family homes, (2) condominiums, and (3) planned unit developments.

Borrowers can choose to receive monthly tax-free payments for a five- or 10-year period, and the loan balance is repaid in one payment after the borrower dies, sells the property, or moves out. The amount of the monthly payment received varies based on the amount of equity in the home. CHFA will lend up to 70% of the home's value. Borrowers can also choose to take payment in one lump sum at the time of closing in lieu of the monthly payments. There are no servicing fees for the RAM. Interest is assessed at a fixed rate of 7 percent, but the interest is taken from the home equity and not from the lender during the period of the loan.

**Table 1: Summary of Montana and Connecticut RAM Programs**

	<b>Montana</b>	<b>Connecticut</b>
<b>Borrower Eligibility: Age</b>	68 and older	70 and older
<b>Borrower Eligibility: Income</b>	200% FPL (Single, \$19,600; Married \$26,400)	\$81,000 (statewide area median income limit)
<b>Borrower Eligibility: Support Needs</b>	No restriction.	One borrower must have long term care needs
<b>Property Eligibility</b>	Owned single family property in Montana; loan may be up to 80% of home's value	Owned single-family property in Connecticut; loan may be up to 70% of home's value
<b>Payment Terms</b>	Non-taxable monthly payments over 10 years; can received initial lump sum of \$10,000	Non-taxable monthly payments over 5 or 10 years, received initial lump sum of \$5,000; An additional \$20,000 can be added to the lump sum payment for qualified medical equipment on a case- by-case basis
<b>Payment Limitations</b>	\$30,000-\$150,000 may be borrowed	Based on the Fannie Mae loan limit
<b>Loan Interest Rate</b>	5 percent fixed rate	7 percent fixed rate
<b>Service Fees</b>	\$0	\$0
<b>Counseling</b>	Mandatory for all participants	None required
<b>Implementation</b>	1990	1985